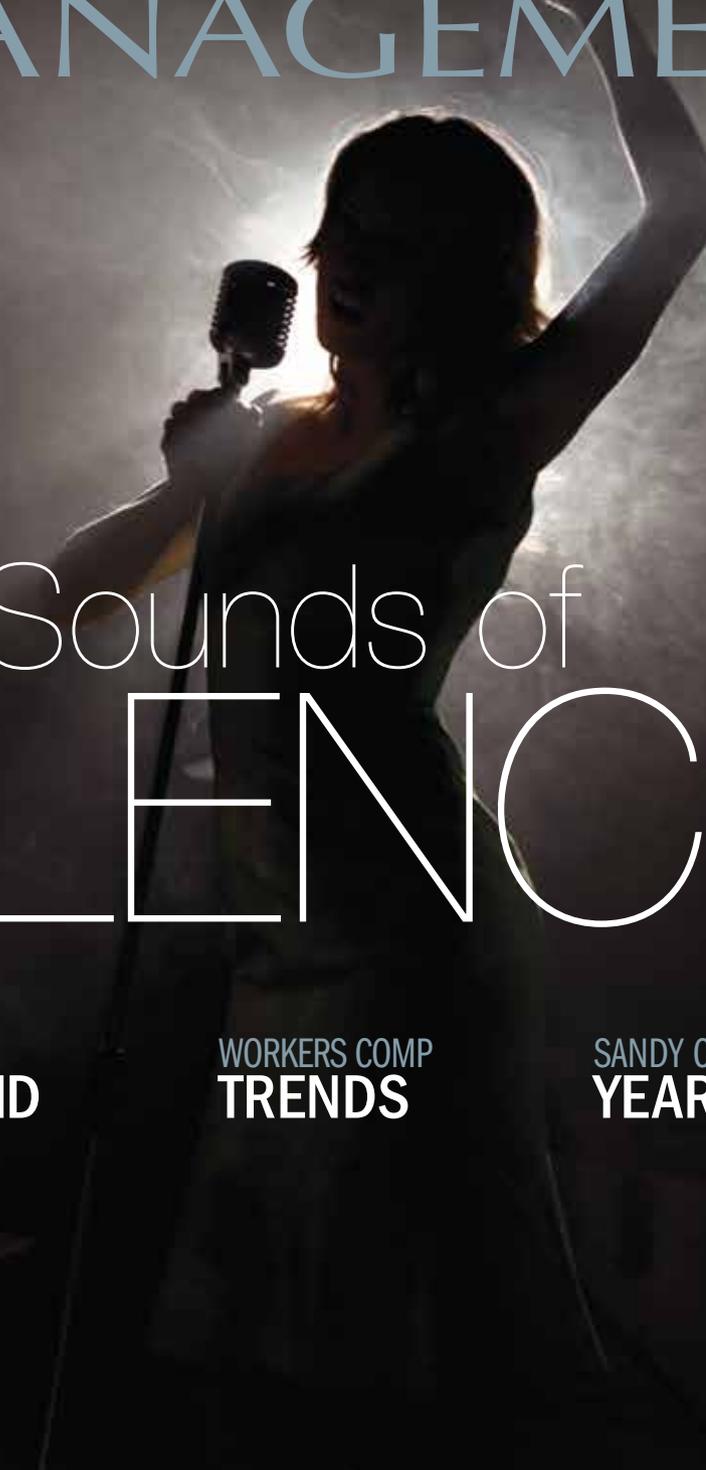


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Insuring Against Concert Tour Cancellation

Traditional insurance carriers are typically well prepared with insurance and disability plans that fit the needs of most people. If you're an accountant and become disabled so you can't work, having a disability income policy can help maintain your normal lifestyle.

But what if you are mega-star Adele, who had to cancel her U.S. tour in 2011 due to vocal problems, or Lady Gaga, who had to cancel the remaining dates on her 2013 world tour because of a hip injury, and are faced with the prospect of losing out on millions of dollars of income?

by Edward A. Tafaro and Frank Zuccarello

Through Jan. 17 of this year, Lady Gaga's Born This Way Ball concert tour had grossed \$168.2 million and moved 1.6 million tickets worldwide, according to *Billboard*. The North American leg, which was almost completely sold out, would have likely put the tour over the \$200 million gross mark. Instead, her hip injury reportedly forced her to refund 200,000 tickets worth approximately \$25 million. And the impact of such a cancellation affects more than just the artist's paycheck.

A stadium tour like Lady Gaga's employs well over 100 crew members, requires local support staff and involves top-level partners like promoter Live Nation, which pays staggering upfront costs that it hopes to recoup over the course of the tour. So what happens when the show can't go on?

These days, many large tours do not hit the road without a contingency plan in place. Protecting the health of Lady

Gaga, the performer, is one thing, but protecting the financial health of Lady Gaga, the tour, falls into a different realm of specialized insurance. What needs protection here is anything that may possibly impair the tour's ability to achieve its potential gross.

It is not uncommon for artists to have their tours insured for upwards of \$20 million as a hedge against weather, venue damage, injury, illness, and even acts or terrorism or kidnapping, when playing in what the U.S. State Department refers to as "hot zones" overseas. The insurance policy can be used as a safeguard should the need arise to reschedule events or replace equipment and personnel. Travel delays can also be a major problem. During Madonna's 2008-2009 Sticky & Sweet Tour, the Material Girl was traveling from Europe to the United States to South America, dragging along with her four 747s full of cargo. When one of the planes wasn't cleared for flight from Mexico City to Buenos Aires, the show had to be postponed.

Adequate protection for a mega-tour usually falls beyond the scope of what a traditional insurance carrier is prepared to handle. This is when the focus turns to a handful of companies that provide what is known as non-appearance insurance, designed to protect the policyholder if a show or series of shows is postponed, abandoned or rescheduled.

Non-appearance insurance is typically underwritten on a broad policy form that covers perils ranging from the death of one or more scheduled artists to destruction of the venue to the temporary illness of a performer—and almost anything in between. Sometimes policies cover a large single event like a New Year's Eve concert, where a lot of money is at stake and a simple 24-hour stomach bug can derail the entire event. Other times, these specialty insurers are asked to cover multi-city mega tours with an entirely different risk profile.

All artists come with their own set of challenges when it comes to insurance. Bruce Springsteen rarely misses a show, but not every artist has such a pristine track record. Lost shows can be the

result of many issues. Serious physical injury resulting in surgery, such as was the case with Lady Gaga, can certainly derail a major tour, but many performers are still able to take the stage even with minor injuries.

Damage to their vocal cords, however, is one physical problem that no singer can overcome. Many conditions can put a strain on a singer's voice, including upper respiratory infections, smoking, screaming or overuse from doing too many shows too close together.

Dr. Joseph Sugerman, one of the country's leading ear, nose and throat specialists, has assisted many recording artists over the years. "The most common throat problems stem from upper respiratory infections, which cause the vocal cords to swell," he said. "Performing with swollen vocal cords just compounds the danger, so it is important to prevent this from happening by knowing the warning signs ahead of time. Seasoned singers know the signs when there is going to be a problem and what to do to take care of it. They also have experienced management in place who know how to get the problem treated quickly."

However, Sugerman explained, it is different for younger performers, many of whom are going out on the road for the first time. "They tend to put their career ahead of their vocal training because they have to work long and fast to recoup the overhead that goes with a career they are quickly trying to build," he said. "It's not like Broadway or opera stars who have been undergoing vocal training since they were six years old."

Singers need to understand that their voice is their instrument and learn how to take care of it. "If you damage this instrument and your vocal cords start to swell, it can seriously impact your career. Vocal cords are like guitar or violin strings," he said, "and a thick string can only make a low note, so once the vocal cord is irritated—either by misuse, infection or acid reflux—a singer has to work harder." This can lead to more swelling, then a blister, then a callus (or vocal nodule), which can ultimately require surgery.

Top 10 Highest Grossing Music Tours

(January-June 2013)

1. Bon Jovi

\$142.1 million

2. Bruce Springsteen & the E Street Band

\$103.9 million

3. The Rolling Stones

\$87.7 million

4. Justin Bieber

\$69.9 million

5. Pink

\$61.1 million

6. Depeche Mode

\$60.9 million

7. Taylor Swift

\$58.5 million

8. Fleetwood Mac

\$58.1 million

9. Beyoncé

\$55.6 million

10. Rihanna

\$50.1 million

Source: Pollstar

“Back in the olden days, artists would tour less frequently because they made most of their money on album sales. Now, that financial well has started to dry up and they have to recoup the loss by performing more often and longer into their careers, making them vulnerable to potential throat issues.”

With so many aging rockers on the road (the top three highest grossing tours in the first half of 2013 featured performers over 50), it isn't difficult to imagine that decades of singing, screaming and backstage indiscretions would take their toll and increase the potential for tour cancellation. But voice problems aren't exclusive to hard-partying veteran rockers or those with take-no-prisoners vocal stylings like AC/DC's Brian Johnson or Metallica's James Hetfield.

For example, singer-songwriter John Mayer's recent tour plans were put on hold when an exam of his vocal cords revealed that granulomas—which were surgically removed in 2011—had grown back. He was forced to undergo another surgery and refrain from singing for weeks while he healed.

A similar fate also sidetracked U.K. pop star Adele, who cancelled her tour due to vocal hemorrhaging. “A vocal hemorrhage would stop anyone in their tracks,” Dr. Lee Akst, a laryngologist and director of the Johns Hopkins Voice Center in Baltimore, told the *Los Angeles Times*. “Every time we use our vocal cords to sing or speak, one vocal cord vibrates against another, and that leads to collisions between them. The louder you use your voice, the more violent the collisions, and the higher the pitch, the more frequent the collisions. That's why singers are at high risk.”

Sugerman explained that more cancellations are popping up as a result of vocal and other physical impairments because today's artists constantly need to tour.

“Back in the olden days, artists would tour less frequently because they made most of their money on album sales,” Sugerman said. “Now, with everyone downloading music, that financial well has started to dry up and they have to recoup the loss—and the huge cost of going out on tour—by performing more often and longer into their careers, making them vulnerable to potential throat issues.”

The reality of today's music industry is that many recording artists have a very short window for top earnings,

but when they tour, they are incredibly productive. As a result, non-appearance coverage has become more popular, especially when a big act goes out on the road. To make sure they are covered, the artist's management has to figure out the potential income from tour guarantees plus percentages put up by the promoters, and then factor in what the loss would be if the artist failed to complete all or part of the tour.

Professional tour managers understand the risks and magnitude of a possible loss. Each one has their own philosophy as to what they will and won't seek to insure. This is sometimes driven by where the artist is in their career financially, or based on past experiences. Typically, the amount of insurance purchased is based on what a tour manager sees as a potential loss of expenses, a percentage of anticipated gross ticket sale revenue or a percentage of the artist's guaranteed income.

Because of all the factors involved, including the artists' prior non-appearance record and the tour schedule, the client's coverage needs require careful attention. Deductibles and co-insurance provisions also factor in when developing the design, price and policy form that serves the client, while providing reasonable risk for the underwriters.

Music tours are a lucrative business. In 2012, the top 50 tours alone brought in a combined \$3 billion, according to concert industry trade publication Pollstar. With music sales on the decline, protecting this income has become an integral part of doing business. Buying insurance may not seem like typical “rock star” behavior, but when artists take to the road, much is at stake. Millions of dollars can disappear quickly if the music stops and there is no specialized insurance in place. That kind of silence can not only be deafening, but very expensive. ■

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